

Response to ARERA Consultation 340/2024 on the criteria for revaluation of cost of capital for electricity and gas infrastructure services

Energy Traders Europe welcome the opportunity to comment on the changes to the criteria for revaluation of cost of capital for electricity and gas infrastructure services (DCO 340/2024/R/GAS), highlighting key aspects for the economic operators. As a preliminary remark, we recommend that:

- Retroactive changes are avoided. Energy sector operators depend on a stable regulatory framework to plan investments and long-term strategies. Retroactive alterations to capital revaluation criteria or tariff regulations could threaten the financial sustainability of past investments, undermining legal certainty and disrupting financial decisions.
- Already approved tariffs should not be modified. These tariffs are vital for operators' financial projections, development plans, and budgets. Changes could destabilize business planning, causing uncertainty and financial losses. Energy operators are already dealing with price volatility and regulatory complexity, so a stable tariff framework is crucial.
- Any review of capital revaluation criteria and tariff parameters be implemented prospectively, avoiding impacts on already approved tariffs or making retroactive changes. The clarity and predictability of the calculation criteria for regulated service costs are key to maintaining operators' trust and supporting a solid investment framework consistent with the strategic objectives of the energy sector.

More detailed answers to the questions in the consultation document are listed below, accompanied by more detailed reasoning. We remain available to continue the discussion and provide all required information or clarifications.

Option 0: Maintaining deflator with exceptional adjustments

S2: Osservazioni in merito all'individuazione della soglia per identificare rettifiche particolarmente rilevanti del deflatore e motivazioni a suo supporto

In the event of the application of Option 0, any corrections to deflator data by Istat should be followed by corrective measures. Alternatively, for the four quarters of the so-called "*periodo base*" to be used in the new calculation, the data already used for the deflator calculation in the previous update should be applied. Therefore, it is not considered appropriate to define any threshold for identifying corrections that would trigger corrective actions.

Option 1: Alternative indicator for revaluation of Cost of Capital

S5: Osservazioni sull'utilizzo degli indici proposti e sulle tempistiche proposte per la transizione

We underline that none of the proposed indices appear to be representative in relation to the inflation affecting investment goods. It would therefore be considered preferable to maintain indexation on the basis of the deflator using the corrective actions referred to in the previous paragraph.

Option 2: Nominal WACC

S6: Osservazioni sull'ipotesi 2 con potenziali indicazioni di analisi di impatto

The introduction of a nominal WACC is considered problematic from an implementation standpoint, provoking concerns related to short-term tariff sustainability, especially in the current context of high infrastructure costs and elevated tariffs.

Specifically, transitioning from a real WACC to a nominal one would pose a complex implementation challenge, as existing regulatory frameworks – both for determining allowed revenues and revaluing the Regulatory Asset Base (RAB) – are based on the real WACC model. Shifting to a nominal WACC regime would require a substantial overhaul of regulatory criteria and models that have been developed over the years.

Without further detailed analysis of the potential impacts, adopting a nominal WACC, while potentially simplifying some regulatory processes, currently presents significant challenges that could negatively affect end users, regulated companies, and the stability of the tariff system. Therefore, it is recommended to carefully assess the feasibility of this solution, prioritizing

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approaches that ensure a balance between regulatory flexibility, investment sustainability, and tariff stability.

S8: Osservazioni sulla possibilità, in futuro, di un'applicazione dell'ipotesi 2 solo a determinati settori (quali ad esempio il settore del gas)

The alternative solution proposed by ARERA to solve the GFCF deflator criticalities, i.e. moving from the current real WACC to a nominal WACC, should be evaluated for the next WACC regulatory period (from 2028), given the potential impact of this change both for network operators and final customers' bills. Therefore, we suggest postponing any decision on this subject after an ad-hoc consultation process.

On such occasion Energy Traders Europe recommends that impact analyses quantifying the effects on tariffs are provided so that market participants are able to evaluate the proposed options more accurately.

Further observations

S9: Indicare ulteriori aspetti di vantaggio o criticità rispetto alle ipotesi analizzate

Taking into consideration that:

- Network operators' regulatory asset base in Italy is revaluated through the "*Deflatore degli investimenti fissi lordi*" (Gross fixed capital formation – GFCF deflator), that until 2021 shown a trend close to the consumer price indexes;
- As noted by the ARERA in Consultation Document 340/2024, starting from 2022 tariff the GFCF deflator became inadequate in capturing the inflation trends, better represented by the consumer price indexes;
- The GFCF deflator bears two undesirable characteristics: i) an inner instability, due to ex-post updates of the series up to five years after their first publication and ii) the absence of official forecasts, usually available for other inflation indicators, considered by network operators to develop their Business Plans and communication toward stock market and financial stakeholders;

and acknowledging the role of energy networks to ensure the functioning of the electricity and gas markets, **we require the Italian NRA to overcome the GFCF deflator criticalities** by adopting the GFCF deflator adjustment indicated in "Option 0" of the consultation document, with the recommendations above specified under S2.

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S11: Osservazioni sulla decorrenza delle modifiche dei criteri di rivalutazione del costo di capitale

We recommend that:

- Retroactive changes should be avoided. Energy sector operators rely on a stable and predictable regulatory and legal framework to plan their investments and long-term business strategies. Retroactive changes to capital revaluation criteria or tariff regulations could jeopardize the financial sustainability of investments already made, compromising the principle of legal certainty and altering the financial balances upon which significant economic decisions were based.
- While we understand the need for the Authority to periodically review capital cost revaluation mechanisms to ensure tariff regulation is aligned with market and macroeconomic dynamics, it is crucial to strike a balance between regulatory flexibility and the stability of past decisions. **Therefore, it is recommended that any review of capital revaluation criteria and tariff parameters be implemented prospectively,** avoiding impacts on already approved tariffs or making retroactive changes. The clarity and predictability of the calculation criteria for regulated service costs are key to maintaining operators' trust and supporting a solid investment framework consistent with the strategic objectives of the energy sector.
- Any changes should be gradual and designed by taking into account the impact on tariffs and therefore the financial sustainability of the measure.

We remain at your disposal should you require further clarification on our response.

Contact

Stefano Grandi
Gas Policy Associate
+32 484 994 777
s.grandi@efet.org